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September 22, 2003

The Honorable Peter J. Walsh
United States Bankruptcy Court
For the District of Delaware
824 Market Street, Sixth Floor
Wilmington, Delaware 19801
REFERENCE: POLAROID CORPORATION CASE NO. 01-10864(PJW)

Dear Judge Walsh:

It's me again. This time I'm writing to you in response to the Independent Examiner.

I have attached a recent article from the Boston Globe that outlines what I feel was an orchestrated bankruptcy by the former Polaroid management to avoid having to go through a complete reorganization as Chapter 11 legally allows for.

I am not able to make it to the upcoming hearing, but feel this article spells out my concerns in this matter. As a former employee who lost money and retirement benefits, I hope that you will consider the examiner's reports and make an equitable judgment for past management and employees who have lost tens of thousands of dollars, not to mention viable jobs.

Once-ailing Polaroid pays off for new owners

By Jeffrey Krasner, Globe Staff, 9/18/2003

Just a year after Polaroid Corp. emerged from bankruptcy, profits are surging and the company appears poised to make substantial amounts of money for its new owners, including executives who held senior positions during the old company's demise, according to documents filed in US Bankruptcy Court.

For the first time, a court filing reveals financial results of the new company, as well as the identities of its owners and directors -- details the company has refused to disclose despite repeated requests from lawmakers and parties involved in the bankruptcy case. Directors include former Representive Rick A. Lazio of New York, who lost in a bid for the US Senate to Hillary Rodham Clinton; Joseph E. Antonini, a former chairman and chief executive of Kmart; and Paolo Cantarella, the embattled head of Italian conglomerate and automaker Fiat SpA who resigned last year.

The turnaround has been dramatic. In the first half of 2001, as it defaulted on loans and spiraled towards bankruptcy, Polaroid posted an operating loss of nearly $170 million on sales of $664 million.

But for the first half of 2003, the company earned an operating profit of $52.6 million on sales of $379 million. The earnings translated into profits of 93 cents a share for the new owners.

In addition, the filings show that the new owners, led by the buyout firm of One Equity Partners, were able

to use $136.8 million of the bankrupt company's own cash reserves to put toward its $237.7 million purchase.

The new Polaroid -- now based in Waltham and with no legal connection to the entity that went bankrupt -- is doing so well that its owners are considering cashing in their investment, possibly by selling shares to the public.

The success of the new company stands in sharp contrast to thousands of Polaroid employees and retirees who suffered a crushing series of losses as the old company failed. Thousands were laid off, and employment shrank from nearly 9,000 at the start of 2001 to 3,700 at the start of 2003. The company eliminated retirees' lifetime healthcare and retirement benefits just before it filed bankruptcy. Disabled employees were fired and had their healthcare and life insurance benefits terminated. And most employees, who were required to take part of their pay as Polaroid stock and couldn't sell the shares until they left the company, saw the value of their retirement savings shrink as the shares fell to pennies.

When it bought the Polaroid assets, One Equity Partners declined to take over the company's underfunded pension plan. That meant that the plan was taken over by a government agency, the Pension Benefit Guaranty Corp., and thousands of retirees had their incomes slashed because of government payment caps.

A Polaroid spokesman provided some clarifications on the details of the bankruptcy filing but declined to comment on the company's turnaround or prospects.

Already, however, the new Polaroid is worth much more than what One Equity Partners paid a year ago, according to a merger and acquisition specialist who has reviewed the company's financial statements. Polaroid could be sold for between $500 million and $700 million, according to Ed Bagdasarian, managing partner with Barrington Associates, a Los Angeles merchant bank advising firms on mergers. If Polaroid could demonstrate solid sales growth and new technology to link digital photography with its instant developing capability, the company might be worth as much as $900 million.

The beneficiaries of the rebirth are the owners of the new Polaroid. They include board members, top executives of Bank One and its One Equity Partners subsidiary, and a handful of executives from the old Polaroid.

Polaroid last fall announced that Jacques A. Nasser, the former chief executive of Ford Motor Co., had joined One Equity Partners and would serve as Polaroid's nonexecutive chairman, a part-time position. According to bankruptcy court documents, he earns $350,000 a year and owns 1,061,010 shares, or 3.1 percent of Polaroid.

The other directors had remained secret until recent filings. In addition to Lazio, Antonini, and Cantarella, the board includes James W. Koven, a 30-year-old former rowing champion who is a vice president at One Equity Partners and had worked at State Street Capital Corp.; Stanley P. Roth, a businessman who had represented unsecured creditors in the bankruptcy proceeding; and, Joseph G. Michels, director of research initiatives at the Princeton University's Materials Institute.

The company's new CEO, J. Michael Pocock, received 707,340 shares of stock, or 2 percent of the total. He has a three-year contract under which he earns $600,000 a year, and was also given a $100,000 "sign-on" bonus and $20,000 to pay the lawyers who helped negotiate the contract. Employees from the old Polaroid who stayed on with the new company also did well. Neal D. Goldman, who had been the company's top lawyer prior to the bankruptcy, is chief administrative and legal officer of the new firm. He earns $390,000 a year, according to the filing, and received 442,090 shares of stock, or 1.3 percent of the company, and last year received a bonus of $107,250 for five months' work. Before the bankruptcy, he was earning $346,152 in salary, according to records.

William L. Flaherty, chief financial officer of both old and new firms, also earns $390,000 a year, owns 442,090 shares and received a $107,250 bonus for the five months new Polaroid operated last year. He earned a salary of $360,000 a year just before the bankruptcy, according to the filings.

The disparate treatment of senior executives and the rank-and-file has sparked calls for investigations by shareholders, former employees, and elected officials. Yesterday, US Representative William D. Delahunt of Quincy said the latest disclosures showed the new company "was built from assets diverted from its employees, retirees, shareholders, and creditors."

Delahunt two weeks ago asked US Attorney Michael Sullivan to investigate Polaroid's bankruptcy for possible violations of law. One Equity Partners, formed in July 2001, put up $60 million of its own money to fund the deal, and borrowed another $20 million.

Most of the money to buy the assets of the bankrupt company came from the bankrupt company. Polaroid had $201.1 million in cash reserves when the sale was completed July 31, 2002. One Equity Partners used $58.3 million of that to pay off company creditors, and then used an additional $136.8 million toward the $237.7 million cost of the acquisition.

Because Polaroid's net assets were worth far more than the $237.7 million purchase price, the new company immediately booked an extraordinary one-time gain of $122.6 million the moment new Polaroid opened its doors Aug. 1, 2002.

Charles F. Auster, a partner in One Equity and Polaroid director who played a key role in negotiating the company's bid, said he was nervous about Polaroid's prospects. The buyout company was "concerned about the long-term viability of the company," he said in a recent deposition. Asked if he thought One Equity Partners got a good deal for the company, he said, "In hindsight, yes."

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